

**Global Forum on Agriculture: Policy Coherence for Development
30 November-1 December 2005, Paris, France**

Session 1. SETTING THE SCENE

POLICY COHERENCE FOR DEVELOPMENT: DISTILLING LESSONS FROM OECD WORK¹

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Abstract

This paper introduces the rationale, definition and approach for work on policy coherence in support of development at the OECD. The organisation of the paper corresponds to the four main avenues through which coherence issues have been examined, i.e. through institutional, sectoral, regional and country based approaches. The main parts of the paper sketch the key policy-relevant issues and lessons that arise from these channels of investigation. It discusses the need for more systematic monitoring and evaluation of progress on policy coherence for development, suggests future areas of work, and highlights the challenges of moving forward. The forthcoming WTO ministerial meeting in Hong Kong provides the next headline opportunity for OECD countries to show that policy coherence for development (PCD) is more than a rhetorical formulation.

¹ This paper serves a background for the introductory comments of Deputy Secretary-General Kiyoo Akasaka who will present an overview of OECD's work on policy coherence for development to introduce the Global Forum on Agriculture.

I. Mandate, meaning and method

Why the OECD? Contributing to development is a key objective of the OECD. As an intergovernmental agency bringing together nearly all areas of policy-making, what better forum to provide the analysis and promote the dialogue to motivate governments to join-up policies to support development? With policy coherence for development (PCD) featuring prominently as a goal of international millennium undertakings at the highest level (Box 1), the OECD Ministerial Council of 2002 mandated the OECD specifically “to enhance the understanding of the development dimensions of member country policies and their impacts on developing countries. Analysis should consider trade-offs and potential synergies across such areas as trade, investment, agriculture, health, education, the environment and development co-operation, to encourage greater policy coherence in support of internationally agreed development goals”.

Box 1. International Commitments to PCD

- *Millennium Declaration* (September 2000)
Millennium Development Goal 8: Develop a Global Partnership for Development
- *Doha Development Round* (2001)
- *Monterrey Consensus* (March 2002)
Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financing and trading systems in support of development
- *OECD Ministerial Meeting* (May 2002)
OECD Action for a Shared Development Agenda
- *UN Summit: 2005 accountability checkpoint*::
- *EU Treaty and EU Council decision of 22 November 2005*

An operational definition: Achieving policy coherence for development means ensuring that the objectives and results of an OECD member government’s development are not undermined by other policies of the same government that impact on developing countries. At a minimum, this implies the Hippocratic commitment to *do no harm*. The OECD’s Development Assistance Committee (DAC) has adopted a more ambitious, synergistic interpretation: policy coherence for development calls for *the systematic promotion of mutually supportive policies across government to help achieve mutually agreed international goals*.

Due to the wide range and complexity of policy areas at stake, the experience of OECD countries suggests a need to define the different systemic levels at which governments and institutions can seek greater policy coherence. A useful PCD typology that breaks down the notion of coherence into four types, illustrated by examples of harmful policies, is presented in Box 2.

Box 2. PCD typology and illustrative examples of incoherent policies

Type 1. Internal coherence: the consistency between goals and objectives, modalities and protocols of a government's development policy (e.g. between state-to-state bilateral aid, bilateral aid channelled through NGOs or the private sector, and multilateral aid).

Examples of internal incoherence:

- Reduced value of aid through tying = \$ 2-7 billion in 2002
- Tied food aid transfers cost 50% more than local food purchases

Type 2. Intra-country coherence: the consistency among aid and non-aid policies of an OECD government in terms of their contribution to development.

Examples of intra-country incoherence:

- Total support to agriculture = circa 5 x aid

- Military expenditure = *circa* 20 x aid and rising
- Fishing subsidies \$15-20 billion per year
- More Malawian doctors in one of Europe's cities than in all of AIDS-ravaged Malawi
- National or regional regulatory standards more stringent than the international standards of Codex

Type 3. Inter-donor coherence: the consistency of aid and non-aid policies across OECD countries in terms of their contribution to development.

Examples of inter-donor incoherence:

- Of 200 average yearly missions to 14 survey countries in 2003, less than 10% were joint
- Low or no representation of countries with 85% of world population in international financial bodies

Type 4. Donor-recipient coherence: the consistency of policies adopted by rich and poor countries to achieve shared development objectives.

Example of donor-recipient incoherence:

- Aid is rarely aligned with recipient countries' budget cycles

How to approach PCD? The OECD's horizontal programme is guided by the DAC definition and takes a four-pronged approach. This overview paper is structured along the same lines.

- *Institutional approach:* No single analytical approach can address all aspects of the complex process of government policy-making that seeks to meet multiple and often competing objectives. For this reason, it was essential to address the *institutional* aspects of PCD. This has been done by analysing and drawing lessons from the good practices of OECD members, which have been distilled into a framework that is consistently applied to DAC peer reviews and could be used more widely.
- *Sectoral approaches:* In parallel, different parts of the Secretariat have addressed *inter-linkages between development and a range of sectoral policies*, including agricultural, trade, migration, health, fisheries, environmental, macroeconomic and security policies. The relevant OECD Committees or their subsidiary bodies have been associated with this work to varying degrees – from taking note of the issues, to full endorsement and active participation. The Global Forum on Agriculture is a major opportunity to take the sectoral approach forward in examining the linkages between OECD country agricultural policy impacts and the development commitments they have taken.
- *Regional and country-based approaches:* In order to test the analytical validity of the sectoral work and make it more context specific, the OECD has also applied *regional* (East Asia, sub-Saharan Africa) and *country-specific case study* approaches. They examine the impacts of OECD country policies and pairs of policies on individual or groups of countries. A special effort to understand and improve policy coherence for development in fragile states is part of that approach.

Assessing progress: A fourth dimension of OECD work on PCD seeks to increase the *monitoring* of OECD country efforts to take developmental impacts into account in their policy making through peer review and mutual review. Some quantification of policy impacts is being attempted and a few proxy *indicators* to support PCD work exist already. More needs to be done to assess progress and measure results.

II. Institutional approaches to PCD

The political economy of PCD: Given the general acceptance of PCD as a critical factor in attaining the internationally agreed development objectives, why is it so hard to achieve? The OECD has initiated some reflection on the reasons. The analysis has found relatively strong support for the hypothesis

that those countries tending to give more foreign assistance as a share of GNI and to demonstrate a relatively strong commitment to promoting PCD are countries with high levels of income distribution. It also unearthed some inconsistencies between professed support for the PCD agenda and actual behaviour on aid and trade. The work has highlighted the need better to understand and take into account the variety of special interest groups that interfere in domestic political-economic policy making in order to preserve rent-seeking benefits that are a cost to the society at large. In the particular case of agriculture, even though most agricultural policies fail to meet their stated objectives efficiently, reform has been modest. There must, therefore, be a gap between officially articulated policy objectives and implicit ones. The political economy approach highlights the central role of politics, politicians and special interests, which may have received too little attention to date in efforts to understand and change policies that impact negatively on developing countries.

Lessons of good practice: Joining up policies across government is a complex process, but there is a useful body of recent institutional experience on which to draw. Much of this experience has been reviewed as part of the DAC peer reviews and brought together for discussion at a series of workshops in 2003 and 2004. It shows the value of carefully prepared policy frameworks based on wide-ranging consultative processes and careful dissemination strategies. The list of countries adopting such public policy statements on PCD is growing. DAC member experience offers a variety of mechanisms for ensuring political commitment and accountability. Cabinet rank for the development portfolio manager and engagement with national legislatures appear to be of the highest importance. Sweden is the first country in the world whose Parliament has ratified a Government Bill on a coherent, whole-of government development policy, while The Netherlands have used joint ministerial protocols addressed to their Parliament. What works in one national context is not necessarily transferable to others, but certain basic elements related to politics, capacity, institutional structures, and results assessment are indispensable, as captured in ‘shorthand’ in Box 3.

Box 3. Indispensable institutional “C”s of Coherence
<ul style="list-style-type: none"> • Clout: Political will to adopt coherent policies that are supportive of development. • Capacity & Co-ordination: Good analytic capacity and co-ordinated policy-making to ensure coherent policies. • Concreteness: Specific, concrete actions for quick results in key areas, especially trade and agriculture. • Coequality: Better balance in the global governance architecture

An analytical framework: Based on specific examples and the evolving body of good practice, the OECD has developed a detailed analytical framework for institutional approaches to policy coherence for development, which helps assess the progress of DAC members, as well as offering recommendations for improvement (Box 4. summarises the framework). Some OECD member countries have already embraced strategic actions for institutional change by adopting this analytical framework for assessing political will and institutional capacity; by drawing lessons from recent analytical work and experiences with institutional reform; by tackling issues in specific action areas according to a firm schedule; and by monitoring results on a regular basis. The recommendation to apply the framework systematically to DAC peer reviews is already being implemented. Subsequent monitoring and possible application to other peer review processes are also recommended.

Box 4. Analytical framework: Institutional mechanisms to promote policy coherence for development	
(1) Managing the politics and policy	
Political context:	Does the structure, form and system of government, the interaction of its different parts and the designation of responsibilities facilitate or hinder achievement of policy coherence?
Political commitment and leadership:	What priority is given to development and coherence issues and raising public awareness of these issues on an ongoing basis at the highest level of government?
Policy frameworks:	Does the government have clear, integrated policy or legal frameworks to set out and ensure implementation of commitments to development, poverty reduction and policy coherence?
(2) Building capacity in the policy-making process	
Stakeholder consultation:	Is the government able and willing to identify, consult and balance the interests of all possible stakeholders in a policy decision or change?
Analytical capacity:	What is the capacity of the government to define the development issues at stake, gather data to fill information gaps, analyse it effectively and feed results into policy processes on time?
Policy co-ordination mechanisms:	How effective are cross-institutional co-ordination mechanisms to consult on policy options, negotiate policy, anticipate and resolve policy conflicts or inconsistencies?
Informal working practices:	Does the administrative culture promote cross-sectoral cooperation and systematic information exchange between different policy communities in day-to-day working?
Negotiation skills:	What is the ability of the development ministry/agency to build strategic alliances, persuade and engage others and create ownership of the policy coherence for development agenda?
Building capacities in developing countries:	What efforts were there to build the institutional capacities of developing country actors in analysis, consultation, policy-making, co-ordination and negotiation and their institutional and productive capacities in specific policy areas?
(3) Overcoming institutional challenges in different policy areas	
Context:	What are the major national and international forums for discussion? Do these adequately represent development perspectives?
Efforts:	What studies, consultation and negotiation took place during the policy process?
Actions:	What were the policy changes or coherence initiatives in specific areas?
(4) Assessing the results of policy coherence efforts	
Monitoring and evaluation mechanisms:	Are there policy monitoring mechanisms or specific studies in different policy areas that analyse impacts on development? How are coherence efforts evaluated?
Results:	How did the policy changes affect developing countries?

III. Sectoral approaches to examining PCD

Given the numerous forms of assistance to partner countries, the diverse government ministries responsible for various aspects of development assistance, the sheer number of actors at the supra-national level and the multiplicity of decision-making forums, the need for co-ordination and coherence in policy making is easily recognised -- but still difficult to implement. The 2001 *DAC Guidelines on Poverty Reduction* introduced overall coherence between the different policies of OECD governments as a key factor influencing the effectiveness of development co-operation policies on poverty reduction, with a specific checklist against which to gauge performance. The checklist illustrates the significant number of policy areas that affect development. Thus, to help policy makers achieve PCD, a better understanding of sectoral issues and the development of analytical frameworks are needed to complement the institutional mechanisms.

This paper touches upon a number of sectoral work-streams at various stages of completion within the OECD, including the agricultural sectoral work that is the focus of the Global Forum discussions.

Tied aid: The tying status of aid has long been considered a key test of donors' commitment to coherent policies and effective aid delivery (type 1. internal coherence). Partners have consistently identified tying as one of the principal procedures that undermine aid effectiveness. It raises the cost of many goods, services and projects by 15 to 30 per cent on average and 40 per cent or more for food aid (see below). Even by conservative estimates that ignore indirect costs, tied aid reduced the value of total bilateral aid by USD5 billion to USD7 billion in 2002. Tied aid often results in higher transaction costs for recipients and is a serious barrier to harmonising donor procedures.

Many donors have increased the share of untied aid in their bilateral programmes. A few have untied all or large parts of their programmes, to improve aid effectiveness and strengthen local ownership of the development process. The share of untied aid in total bilateral aid increased from 40 per cent in 1984 to 55 per cent in 1994 with some intermittent fluctuations, but since 1997 it has stabilised at around 40 to 45 per cent.

The DAC continues to keep this issue on its agenda and to seek progress in untying. Building on its 2001 Recommendation to untie aid to the least developed countries, the DAC, meeting at senior level in December 2005, will consider removing the size thresholds below which aid did not have to be untied. If agreed, this will add an additional \$300 million in untied aid. It will also seek to strengthen efforts to support local and regional procurement of aid funded activities, to the benefit of developing country suppliers. Beyond that, the DAC has agreed to explore further possibilities to untie more aid, including untying to a wider range of countries and activities than are presently covered by the Recommendation.

Tied food aid: A recent OECD study has helped to quantify the costs of tied food aid. The study shows that, in most circumstances, financial aid is the preferable option. Food aid in-kind is overwhelmingly tied. This makes it at least 30% more expensive than financing commercial imports and, on average, 50% more expensive than local food purchases. The relative efficiency of local and third country purchasing also suggests that untying food aid and opening it up to much broader sourcing would clearly benefit agricultural development in many low-income developing countries.

Aid effectiveness: The DAC is actively engaging the international community of donors and partners on several additional fronts related to both inter-donor (type 3.) and donor-recipient (type 4.) coherence. Commitments were taken in Rome (2003), Marrakech (2004) and Paris (2005) to align development assistance with partner-country strategies, to harmonise donor policies and procedures, to implement principles of good practice in development co-operation, and to track progress and assess outcomes by relying on partner countries' monitoring and evaluation systems. Progress has been made on both *harmonisation* (e.g. simplified procedures and practices, joint analytical work, delegated co-operation, common procurement and financial management procedures, and common arrangements for sector wide approaches and budget support) and *alignment* behind country strategies and more joint support of these strategies. The *Paris Declaration on Aid Effectiveness*, a landmark agreement signed by nearly 100 countries in March 2005, featured prominently in the conclusions of the UN Summit of September 2005.

Agriculture: The work of the OECD's Directorate for Food, Agriculture and Fisheries has been groundbreaking in terms of quantifying member country and, increasingly, non-OECD country agricultural support. This public good has been effectively and creatively mined to argue against OECD member country agricultural support policies and their trade-distorting effects. Yet, this compelling information has not dissuaded policy makers from continuing to provide high levels of support. The political economy reasons for this have already been evoked.

In order to take the work a step further, as part of its horizontal PCD programme, the OECD commissioned an analysis by Professor Alan Matthews. The study has been discussed by the Committee on Agriculture and in various seminars and workshops, including at ministerial level. This 2005 Global

Forum on Agriculture, with policy coherence for development as its central theme as it meets back-to-back with the OECD Committee on Agriculture, is a timely opportunity to take up the analytical findings, together with subsequent related work.

It is important here to underscore the useful contribution of this work to the PCD agenda in several respects. Its starting point is the achievement of the Millennium Development Goals, to which all OECD members have subscribed, especially the elimination of extreme poverty and hunger. It provides an analytical tool to enable the policy maker to approach each type of agricultural policy and policy instrument with a development perspective. This perspective has not been offered before in a systematic way to agricultural policy makers. The study also recalls the gains, as quantified by a number of analysts, from removing agricultural protection. The timeliness of the study – and the Global Forum discussions of the issues it raises – as the WTO Ministerial meeting approaches, should be highlighted.

Box 5 . The Impact of OECD Agricultural Policies on Poverty Reduction in East Asia

The Case of Viet Nam

East Asia has been studied as a special regional case in the OECD's work on policy coherence for development. This regional case study is discussed in Section III of this paper. Given that East Asia, over the past two decades, holds the best record of all regions in reducing poverty, it is of special interest to examine the impacts of OECD agricultural policies on poverty alleviation there.

The study recalls that OECD country domestic support, export subsidy or inhibited market access policies have the most distorting effects if the developing exporting country has world market power in a given commodity, if the policy or policy combination will shift aggregate excess demand or excess supply and affect world market prices and if the developing country's agricultural sector is linked to those world market prices.

On this basis, the study finds that Viet Nam is likely to be affected, as it has commodity overlaps with OECD countries mainly in rice and sugar. Thus, world price effects on Viet Nam's domestic prices are likely. The effects of these prices on rural wage rates are likely to be pronounced in Viet Nam due to the low degree of integration between industrial and agricultural labour markets. Based on this observation, OECD country policies in rice and sugar are likely to have negative effects on Vietnamese poverty reduction, including poverty of the lowest income rural poor.

Trade: OECD work has been focusing on tariff liberalisation and its gains, liberalising non-tariff measures, trade facilitation, and liberalising trade in services. It underscores the importance of developing country access to developed-country markets, recalling that one of numerous important benefits of market access is the anticipated positive impact on domestic and foreign investment. Under a number of scenarios for multilateral tariff cuts, the findings concur that half or more of the potential welfare gains originate from increased developing-country exports to the OECD area.

OECD estimates of global annual welfare gains from tariff liberalisation range between USD117 billion under a proportional tariff reduction of 50 per cent to USD174 billion under a scenario with full tariff removal. Close to half of these gains accrue to developing countries. Most of them arise from liberalisation of market access in manufacturing. Developing countries as a whole reap welfare gains of around USD50 billion from tariff reductions on manufactures and USD19 billion from agricultural tariff reductions. This suggests that tariff reductions for both manufactures and agricultural products can contribute to enhancing welfare in developing countries.

Developing countries benefit when the liberalisation focuses primarily on the developed countries, but they benefit even more when they cut their own tariffs too. Roughly two-thirds of these gains come from removal of tariff-related distortions in just three sectors, namely motor vehicles and parts, textiles and clothing, and processed agricultural products. In South-North trade, studies suggest that customs and administrative procedures and behind-the-border sanitary and phytosanitary (SPS) and technical barriers to trade (TBTs) particularly concern developing countries. In South-South trade, cumbersome or otherwise difficult customs and administrative procedures, including problems with import

licensing, also rank very high among the market-access concerns reported by developing countries. They may be more pervasive than in South-North trade. There are also many complaints about fees and charges on imports and other para-tariff measures, which appear to have become more frequent as countries have lowered their import tariffs.

A combination of examples, case studies and empirical studies indicate that developing countries often have special difficulties and higher costs in showing compliance with technical regulation and these can adversely affect firms' propensities to export in developing countries. Lengthy inspection and testing procedures especially have been shown to reduce developing-country export shares by four per cent and nine per cent respectively. Efforts to rationalise these non-tariff policies further and to help exporting countries build up the infrastructure and capacity needed to show compliance with foreign regulatory requirements could significantly enhance developing country exports and welfare.

Studies further suggest that the transaction costs generated by inefficient procedures at the border may range from one to fifteen per cent of the traded goods' value, depending on the countries, types of goods and types of traders. The same studies note that a mere 1.5 per cent uniform reduction in these costs could result in global welfare gains of USD72 billion. The OECD has estimated that 65 per cent of these worldwide income gains would accrue to non-OECD countries, whatever the assumption on the extent of trade facilitation. To illustrate, the welfare gains as a percentage of GDP in Sub-Saharan Africa are more than twelve times the OECD average in relative terms. These benefits would accrue primarily to countries that actively engage in trade facilitation, while those who do not would lose out through trade diversion. The OECD's work in estimating the welfare effects of services trade liberalisation suggest that under certain assumptions, projected gains from unilateral services trade reform can significantly exceed those from unilateral reform in agriculture or manufacturing.

Aid for trade: Much of OECD's coherence work has focused on sectors outside of development co-operation. Yet, the results have put the spotlight back on the "two-way street" aspect of coherence, namely that development co-operation policies need to integrate issues, lessons and techniques that arise through linkages with other government policy sectors. One of the policy areas brought out in the sectoral PCD work on agriculture, as well as in several other sectors, revolves around the coherence of development co-operation policies in relation to the specific sector under review. For this reason, in the trade area, the priority of using aid for trade is rising in international discussions. Enabling partners to benefit from open markets goes beyond market access itself and beyond building expertise in trade negotiating techniques. It encompasses help to secure a wide range of capacities and infrastructure needs, including reliable roads and energy supply, technical improvements, training for managerial and technical skills.

Migration: Many coherence issues arise in relation to migration, notably in relation to OECD policies that target skilled workers to leave their countries to come and fill gaps in critical sectors, especially in the health area. This contributes to *brain drain*, but under the right policy environments possibly to *brain circulation* and *brain gain*. As for unskilled workers, it is the restrictions on their entry into OECD countries that raise issues of policy coherence for development.

A central theme linking most issues of migration is related to the growing transfers of resources through remittances and the links between migrants, remittances and the economic development of sending countries. The OECD has a long experience of migration issues, including the role that remittances have played in the development of sending countries, such as Italy, Portugal, Greece, Spain and more recently Turkey and Mexico. It has analysed the current magnitude of remittances, the characteristics of the migrants in question and the transmission channels used to send their savings back to their countries of origin. Due to the substantial impacts of remittances in supporting living standards and economic development in the countries of origin, OECD work has focused on measures that help reduce transaction costs associated with transfers and enhance transparency. There are numerous examples of how greater

competition between banking and other money-transfer-saving intermediaries, combined with the use of ICT, have contributed to reducing formal fees and to quickening the process of remittance. This is less apparent with respect to transparency, as it is often unclear as to which exchange rates are used for the transactions. It is important to continue to share OECD member country experiences with non-member economies, to optimise the use of the money transferred by emigrants, to explore ways of increasing the use of the new technologies in order to reduce further costs of transfers and help to modernise the formal fund transfer system.

Health: The MDGs explicitly include providing access to affordable essential drugs and making available the benefits of new technologies, especially information and communication technologies (ICT). Rapid advances in science and technology open new opportunities for fighting poverty. Greater synergies between development policies and science and technology for sustainable development, access to medicines, and eradication of “neglected diseases” is critical to efforts to reduce poverty.

The issue of availability, accessibility and affordability of medicines for emerging and neglected diseases (including but not limited to HIV/AIDS) is a thorny topic that is a source of friction between the developed and developing world. Disease burden is undeniably a major stumbling block to economic and social progress in many developing countries, notably in Africa. The OECD is seeking to address in a more concerted fashion how member countries might encourage innovation that meets the health needs of developing countries. This will include availability, affordability and access to medicines as well as the need to address more explicitly the threat posed by emerging and neglected diseases. The latter is a serious economic issue. Several developing countries have seen decades of slow, painstaking improvement in standards of living wiped out in just a few years by the ravages of disease.

Fisheries: Based on an analytical study discussed several times by the OECD Committee for Fisheries and which proposes an analytical framework for dealing with fisheries coherence, a meeting planned between development and fisheries experts in April 2006. It will take up issues such as access agreements, trade, income effects and development co-operation policies.

Environment: An OECD project, begun in 2002, has been examining ways of mainstreaming climate change policy objectives into the development assistance efforts of OECD donors, as well as into the national planning activities of developing countries. National level case studies in six developing countries (Bangladesh, Egypt, Fiji, Nepal, Tanzania and Uruguay) have been completed. The main emphasis is on delivering cost-effective adaptation to climate change in developing countries, using sectoral and aid policies as vectors for doing so. Policy guidance to aid agencies is currently in preparation; the work is also examining ways of mainstreaming climate policy objectives into specific development instruments, such as the Poverty Reduction Strategy Papers (PRSPs). The work has contributed significantly to the World Bank-led Multi-agency Report on Poverty and Climate Change (2003), endorsed by the heads of participating development agencies, including the OECD.

The current phase of this work focuses on intensive preparations for the first ever Ministerial level meeting of the Development Assistance and Environment Committees of the OECD. It is expected that these two policy communities will adopt a common plan of action that envisages joint work to help developing countries

Security: The OECD DAC Guidance on Security System Reform (SSR) and Governance has been influential as a catalyst for policy discussions within aid agencies on the role of security and SSR in creating the necessary environment for sustainable development to take place. A December 2005 SSR practitioners workshop is a major initiative that brings together relevant actors from both partner and OECD member countries. It is a whole-of-government event, with practitioners from the military, intelligence, police, customs, immigration, justice and prisons sectors represented. This broad-ranging participation will help ensure a cross-cutting approach to OECD’s SSR work. Most of the practitioners

have worked or are working on SSR within field missions and bring to the table SSR experience from Latin America, Asia, the Balkans, Central Asia and Africa.

The workshop aims to bring together SSR practitioners to: (i) examine and identify concrete examples of sector-specific (e.g. police, judiciary, military) approaches by practitioners and experts; and (ii) begin the process of developing a system-wide implementation framework based upon shared knowledge, hands-on experience, emerging best practices and lessons learned. The goal of this work is to develop an Implementation Framework on Security System Reform (IF-SSR) to help guide, co-ordinate, align, monitor and evaluate SSR activities in the field. This will in turn help strengthen the coherence of donor government and multilateral organisation practice by facilitating the formulation of a joined-up plan for their own individual engagement.

III. Regional and country case-based approaches

A regional case study of East Asia's development examined a range of OECD policy vectors—trade, investment, migration, aid and others—and their impacts on Asian economies. The central findings of this study show that policy coherence in OECD countries can bear fruit only when partner economies have the capacity to respond: coherent policies are necessary, but not sufficient.

As previously discussed, the regional and country-specific work is important not only in its own right but also to test the validity of findings under the sectoral approaches of the PCD work. The East Asia has indeed confirmed the validity of the sectoral priorities that have been singled out for OECD work and the findings of the sectoral work. The study suggested policy lessons in a number of areas, but the central, generalised challenges highlighted for OECD countries are considered to be:

- To ensure the fundamental enabling conditions of security and political stability;
- To pay greater attention to the impacts of macroeconomic policies on developing country growth;
- To increase both market access and capacity building for developing economies;
- To assure government structures that help maintain financial stability;
- To improve aid effectiveness and its complementarity with host country strategies and policies.

Box 6. The Impacts of OECD Cotton Support Policies on West Africa and Central Asia

The horizontal PCD programme has stimulated a work-stream on cotton in the Sahel and West Africa Club (SWAC) of the OECD. Up to 3 million families in the region area estimated to produce cotton in West Africa and up to 16 million people are involved in some way in cotton production, processing and trade. The SWAC proceeded with an analysis of cotton production in the context of dynamic change in West African agriculture supplemented by extensive consultations with the economic agents involved. The results focus on the strategic importance of this sector in production and trade in West Africa and to the role of cotton in livelihoods and access to services. Despite the numerous consultations and international meetings since 2004 to help resolve the distortions created by high export and production subsidies to producers in OECD countries, the issue remains unresolved.

Consultations with a range of West African actors from producers, NGOs, governments, private sector representatives, and regional organisations showed strong consensus around the need for greater public awareness in wealthier nations of the importance of policy coherence in order to support development and poverty reduction efforts. They suggested that targeted protection and support may be needed for strategic commodities or sub-sectors such as cotton in order to support the development of West African agriculture and identify areas of comparative advantage in increasingly competitive markets. The use of WTO provisions for special and differential treatment may need to be applied in this situation. The development of regional markets and processing capacities is considered an important way forward.

In reviewing the impact and coherence of OECD country policies on Asian developing countries and the lessons for central Asia in particular, cotton stands out as the main channel through which OECD country policies have an economic impact that region. The analysis finds OECD textile trade and farm support policies extremely harmful and considers that they significantly outweigh any developmental benefits from aid or other channels.

A series of regional studies of coherence are underway to focus on the impacts of OECD policies on Sub-Saharan Africa, Latin America and Asia and are being informed by country-specific cases. As part of the OECD's evolving partnership with Africa (Box 2), the *Mutual Review of Development Effectiveness* takes up a range of themes of mutual accountability between African and OECD countries, including policy coherence.

IV. Monitoring and Evaluation

Through DAC peer reviews and the *Mutual Review of Aid Effectiveness* in the context of NEPAD, monitoring elements are in place for policy coherence. However, a more systematic monitoring system across countries, as well as an evaluation of efforts to date to improve PCD are warranted. A framework for such evaluation already exists and should be put into operation. In addition, the development of indicators and other quantitative tools would also be important and could raise the profile and impact of the work.

V. Concluding remarks: Future Challenges

Much information is coming out of PCD work in the OECD and elsewhere. This initial analytical phase of work has been necessary and is already the basis for joint meetings of several policy communities. The policy lessons need to be synthesised from this various streams of work and presented to policy makers in a concise, digestible fashion. This step will have the added advantage of helping think through the priorities for the next stages of work.

Policy coherence in OECD countries can bear fruit only when developing countries have the capacity to respond. Regional and sectoral work-streams have repeatedly brought out this issue. Therefore, the scaling up of aid over the coming decade provides an opportunity to include capacity development as a central focus of coherence. The case for supporting aid for trade is being made in a forceful way and is likely to feature prominently in Hong Kong. This is only one, albeit a very important, area that needs long-term consistent focus on capacity development.

Coherence is most effective when it is practiced by both developing and developed countries in tandem. This has been brought out on numerous occasions by the developing country partners themselves. Any and all support from OECD countries and the OECD itself to do that will be a sound investment.

As for new areas of work, the pressure must remain on trade and agriculture reforms by OECD member countries. Much remains to be done with respect to policy coherence issues related to several dimensions of migration. In the realm of anti-corruption, there are OECD country supply-side issues on which greater attention should be focused. With globalisation, there will continue to be increasing linkages and inter-linkages that will keep the coherence of policies between the wealthier and poorer countries in the spotlight.

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